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INFO RUEHAK/AMEMBASSY ANKARA PRIORITY 7901
RUEHDA/AMCONSUL ADANA PRIORITY 2375
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASH DC PRIORITY
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SUBJECT: TURKISH TEXTILES CHANGE COMPETITIVE FOCUS

11. Summary. A strong lira, rising production costs, and increased competition from China continue to needle Turkey's textile and apparel industry. Top textile sector officials have requested an extension of subsidies from the Ministry of the Economy to bolster the sector. In an effort to redefine its competitive edge, some members of Turkey's textile sector now invest in high-end production, research and development, and design to place them in competition with Italy while others remain focused on the shadow of China. Representatives from Turkey's two major textiles associations offered mixed objectives, demonstrating that the sector has yet to sync its brand. End Summary.

A Focus on Cost Reduction

12. In light of the strong lira, rising production costs, and increased competition from China the Deputy Prime Minister for the Economy will announce an urgent action plan for the textile sector in the coming weeks following an August 25 meeting. Top officials of the sector hope this plan will include a two year of the subsidy/incentives law (No.5084) beyond the 49 underdeveloped provinces for which it is currently reserved. Under the law, the GOT covers 50 percent of electricity costs and excuses the company from withholding employee income tax and social security premiums if located within an organized industrial zone (OIZ). Those companies in subsidized provinces but not located within an OIZ pay only 60 percent of electricity costs and withhold only 20 percent of employee income tax and social security premiums. According to Secretary General of the Turkish Apparel Industrialists Association Mehmet Kumbaraci, the sector has already begun to move production facilities to specialized zones in Anatolia that fall under the subsidy law in order to reduce production costs, which have been rising dramatically due to increases in energy prices and in wages. He notes nearly half of the sector's companies - largely small and medium sized enterprises and family companies - cut employment costs by remaining unregistered. Even registered companies cut costs by subcontracting unregistered workers while the government turns a blind eye in order to maintain support during local elections, according to Kumbaraci.

13. Given what he considers the unfair competition the Turkish textile sector faces from China, Kumbaraci believes the sector is justified in its attempts to cut costs. Contending that the U.S. and Europe have a double standard when it comes to China - closing their eyes to the poor working conditions and child labor in order to obtain cheaper products - he laments that "free but fair and ethical trade"

will never be a reality. Some companies do prefer to buy socially compliant Turkish products, like Marks & Spencer and H&M, which purchase only from companies with registered workers. Turkey remains Marks & Spencer's top supplier for this reason, he noted.

Rebranding Turkey's Competitive Edge

¶4. In order to compete with what Kumbaraci terms "low quality, mass-produced products from China," the textile sector is rebranding itself with a focus on "visionary" high-end products. By redefining its competitive edge in the areas of haute couture, design, and eco-friendly production, Akif Yurtcan, Secretary General of the Istanbul Textile and Apparel Exporters Association (ITKIB), and Emine Acilan, Research and Development Manager at ITKIB see the potential for Turkey to compete with countries such as Italy instead of China. With the goal of improving product quality, ITKIB opened the Istanbul Textile Research Center (ITAM) where researchers experiment with nanotechnology and "green materials." In the realm of design and haute couture, ITKIB begins its first academic year of courses at the Istanbul Fashion Academy (IMA) in October with excess student demand. After two years of studies at IMA, students will be eligible to participate in an exchange year at the London School of Fashion. According to Yurtcan and Acilan, IMA graduates will contribute to the industry by adding distinct Turkish branding to the product.

Rising Oil Prices Fuel Exports

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¶5. Despite exceptional tariffs on imported textiles and garments in Iran, sales to Iran increased 29 percent from 2006 to 2007. Yurtcan and Acilan suspect it is a reflection of the surge in energy revenues in Iran, and cite parallel changes in consumption patterns from Russia and Kazakhstan for similar reasons. They note that exports to the U.S. decreased by 29 percent between July 2007 and July 2008.

Turkish Textiles/Garment Export Statistics (Jul 2007 - Jul 2008)

-- 2008 Total exports of ready-made clothing: \$1.42 billion
-- 2008/2007 Percentage Change: 8.4%
-- 2008 Total exports of ready-made clothing to US: \$53.31 million
-- 2007/2008 Percentage Change: -29.3%
-- 2008 Total exports of textiles: \$522.14 million
-- 2007/2008 Percentage Change: 16.2%
-- 2008 Total exports of textiles to U.S.: \$18.52 million
-- 2006/2007 Percentage Change: 7.2%

¶7. Comments: The heads of Turkey's two major textile associations presented two differing approaches that may in fact be complementary, but that demonstrate that the sector has yet to agree on who its principal competitor is and on how Turkey should be branded. Kumbaraci contended that China remained Turkey's main competitor and complained about the Western market's increased consumption of Chinese goods, while Yurtcan is interested in rebranding Turkey as a high-end producer and now considers Italy to be its main competitor. Without more effective coordination in the sector, both initiatives may end up faltering in the face of increasing international competition and rising costs.

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